Department of State **TELEGRAM**

SECRET 836

PAGE 01 TRIPOLI 00473 01 OF 02 091228Z

43
ACTION E-04

EXCISE

INFO OCT-01 SS-20 NSCE-00 NSC-10 INR-07 CIAE-00 NSAE-00
L-02 AF-05 TRSY-06 EUR-12 ARA-11 NEA-08 PRS-01 RSC-01
RSR-01 OEP-01 SSO-00 EA-18 PM-03 COM-02 JUS-01 /114 W
002753

P R 091043Z MAR 71
FM AMEMBASSY TRIPOLI
TO SECSTATE WASHDC PRIORITY 7494
INFO USINT ALGIERS

AMEMBASSY BENGHAZI
AMEMBASSY BONN
AMEMBASSY BRUSSELS
USMISSION/EC/BRUSSELS
AMEMBASSY CARACAS
AMCONSUL DHAHRAN
AMEMBASSY DJAKARTA
AMEMBASSY JIDDA
AMEMBASSY KUWAIT
AMEMBASSY LAGOS
AMEMBASSY LONDON
RUFHBG/AMEMBASSY LUXEMBOURG 14
AMEMBASSY MADRID
USMISSION NATO
USMISSION/OECD/PARIS
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY TEHRAN
AMEMBASSY THE HAGUE
AMEMBASSY TOKYO
AMEMBASSY VIENNA

DEPARTMENT OF STATE A/CDC/HO
REVIEWED BY CJ DATE 6/22/81
PORTIONS DENIED AS INDICATED

S E C R E T SECTION 1 OF 2 TRIPOLI 473

LIMDIS

SUBJ: OIL SITUATION: LIBYAN NEGOTIATIONS

SECRET

PAGE 02 TRIPOLI 00473 01 OF 02 091228Z

REF: TRIPOLI 452

1. SUMMARY. LARG HAS REJECTED COMPREHENSIVE FIVE-YEAR PRICE AGREEMENT PROPOSED BY OIL INDUSTRY THROUGH OCCIDENTAL AND BP MARCH 7. IN DOING SO JALLUD DESCRIBED LARG'S OBJECTIVE AS ACHIEVING SETTLEMENT OF PAST AND PRESENT CLAIMS, WITH NO LARG COMMITMENT FOR FUTURE. LARG SAYS IT SEEKS SETTLEMENT AT ECONOMIC LIMIT OF WHAT COMPANIES CAN BEAR, AND JALLUD HAS TOLD BOTH OCCIDENTAL AND BP THAT IF THEY ARE UNWILLING TO AGREE TO SUCH TERMS THEY SHOULD WITHDRAW FROM LIBYA AND NEGOTIATE FOR COMPENSATION. OXY HAS BEEN GIVEN UNTIL MARCH 11 TO CONCLUDE SETTLEMENT OR FACE CONSEQUENCES. LARG'S SUGGESTIONS OF MEASURES IT MAY TAKE RANGE FROM LEGISLATIVE ACTION TO IMPOSE PRICES AND/OR LARG CONTROL, TO EXPORT EMBARGO BY ALL SHORTHAUL SUPPLIERS - INCLUDING NIGERIA. WE THINK THAT FOLLOW-UP MEETING OF MEDITERRANEAN OIL MINISTERS, AFTER ELAPSE OF THEIR ORIGINAL MARCH 10 DEADLINE (TRIPOLI 384) IS GOOD POSSIBILITY. [redacted] B1

END SUMMARY.

2. AT REQUEST OF OIL INDUSTRY COMMITTEE CHAIRMAN PIERCY, AMBASSADOR INVITED FRENCH, GERMAN, SPANISH AND UK AMBASSADORS AND DUTCH CHARGE TO BRIEFING BY PIERCY AND BP NEGOTIATOR SUTCLIFFE AT EMBASSY MARCH 8. (SPANISH INCLUDED FOR FIRST TIME IN INDUSTRY BRIEFING SINCE HISPANOIL - MEMBER OF AQUITA UE GROUP IN LIBYA - RECENTLY ADHERED TO INDUSTRY POSITION). PIERCY GAVE GLOOMY ACCOUNT OF NEGOTIATIONS. HE SAID TALKS HAD TAKEN BAD TURN WITH LARG'S REJECTION ON MAR 7 OF COMPREHENSIVE INDUSTRY PROPOSAL PRESENTED SEPARATELY BY OCCIDENTAL AND BP. HE DESCRIBED OFFER AS AIMED AT ACHIEVING STABLE AGREEMENT, AS AT TEHRAN, AND SAID IT INCLUDED MAXIMUM TERMS INDUSTRY COMMITTEE WAS AUTHORIZED TO PRESENT. PRICE OFFERED WAS NEARLY 50 CENTS LESS THAT DEMANDED BY LARG BUT WAS ALL INDUSTRY CONSIDERED JUSTIFIED. BOTH PIERCY AND SUTCLIFFE SAID INDUSTRY RECOGNIZED DANGER OF HAVING USED UP FLEXIBILITY WITHOUT NEARING AGREEMENT, BUT THAT INDUSTRY HAD DONE SO TO GIVE LARG OPPORTUNITY TO DEMONSTRATE ITS INTENTIONS AND SO THAT, IF LARG TOOK DRASTIC ACTION, CONSUMERS WOULD REALIZE THAT INDUSTRY HAD MADE GENEROUS PROPOSAL.

3. IN REPORTING LARG'S REACTION TO INDUSTRY PROPOSAL, PIERCY SAID DEPPRIMIN JALLUD REJECTED COMPREHENSIVE FIVE-YEAR AGREEMENT SUB-

SECRET

SECRET

MITTED BY COMPANIES AND INSISTED THAT LARG ONLY WANTED COMPANIES' MAXIMUM PRICE OFFER. JALLUD SAID LARG WAS INTERESTED IN SETTLEMENT OF PAST AND PRESENT CLAIMS - BUT NOT IN AGREEMENT BINDING LARG FOR FUTURE. LARG, JALLUD SAID TO SUTCLIFFE, SOUGHT SETTLEMENT AT ECONOMIC LIMIT OF WHAT COMPANIES COULD BEAR AND CONTINUE THEIR OPERATIONS IN LIBYA. SUTCLIFFE RESPONDED THAT HE UNDERSTOOD LARG WAS INTERESTED IN REVIVING INVESTMENT IN EXPLORATION. STABILITY OFFERED THROUGH PROPOSED AGREEMENT, THEREFORE, WAS ESSENTIAL. JALLUD THEN SAID THAT LARG WAS ONLY INTERESTED IN OBTAINING BEST PRICE FOR LIBYA'S OIL. IF BP COULD NOT AFFORD LIBYA'S PRICE THEN IT SHOULD SAY SO AND WITHDRAW - AND LARG WOULD PAY COMPENSATION. JALLUD DID NOT RETURN TO THIS EXTREME POSITION, BUT CONCLUDED LENGTHY DISCUSSION WITH REASSERTION OF LIBYA'S DEMANDS AND REQUEST THAT HIS POSITION BE CONVEYED TO LONDON SO THAT HE MIGHT HAVE "FINAL" ANSWER FROM BP MORNING OF MAR 9. JALLUD CLOSED BY STATING THAT IF BP DID NOT PROVIDE SATISFACTORY RESPONSE, LARG WOULD APPLY VERY ONEROUS MEASURES WHICH WOULD DEFEAT EVEN "INTERNATIONAL CARTEL" OIL COMPANIES HAD FORMED.

4. IN RESPONSE TO QUESTIONS, PIERCY DESCRIBED KALEIDOSCOPIC NEGOTIATIONS IN SOME DETAIL. HE SAID THAT LARG HAS NOT DIMINISHED ITS ORIGINAL DEMANDS IN ANY WAY, BUT IT HAS INTRODUCED OR REVIVED OTHER CLAIMS WHICH IT NEGLECTS OR ASSERTS AS IT CHOOSES. ILLUSTRATIVE OF THISE ARE: RETROACTIVE CLAIM FOR LOW SULFUR PREMIUM; YET ANOTHER FREIGHT FACTOR PEGGED AT 12 CENTS FOR MAY 1970; REVIVAL OF CLAIM MADE IN JANUARY FOR 30 CENT PRICE INCREASE RETROACTIVE TO SEPT. 1970 TO REESTABLISH PARITY WITH OTHER SHORT-HAUL SUPPLIERS WHO RECEIVED PRICE INCREASES LAST FALL.

5. SUMMARIZING, PIERCY AND SUTCLIFFE SAID IT HAS BECOME IMPOSSIBLE FOR COMPANIES TO SATISFY CLAIMS OF OTHER GOVERNMENTS WITHOUT GENERATING NEW CLAIM FROM LARG, OR TO PRESENT OFFER CONTAINING ANY NEW ELEMENT - INTENDED TO SATISFY LARG'S DEMANDS IN MANNER TOLERABLE FOR COMPANIES - WITHOUT GENERATING NEW RETROACTIVE DEMAND FROM LARG. IN INDUSTRY'S VIEW LARG'S PURPOSE IS TO OBTAIN MAXIMUM SETTLEMENT THAT TRAFFIC WILL BEAR WHILE PRESERVING OPTION TO ASSERT NEW OR REVIVED CLAIMS AT ANY TIME. TO ACCOMPLISH THIS, LARG AIMS AT FORCING COMPANIES INTO PRESENTING HIGH POSTED PRICE OFFER AS "BUY-OUT" OF ALL LARG DEMANDS. [redacted] LARG THEN WOULD IGNORE "BUY-OUT" ASPECT OF OFFER TO PRESS FOR WHATEVER ELSE MIGHT BE OBTAINED IN RETROACTIVITY AND INVESTMENT COMMITMENTS - ALL

B4
B1

SECRET

THEI WHILE REFUSING TO OFFER ANY GUARANTEE OF FUTURE STABILITY. OTHERI COMPANY REPS. WITHI WHOM WE HAVE TALKED ECHO THESE GONCLUSIONS AND ADD THEY BELIEVE CONFRONTATION WILL OCCUR SOON.

6. SUBSEQUENTLY, EMBOFF WAS BRIEFED BY MOBIL'S ENSOR ON RESULTS OF MAR. 8. MEETINGS OF AMERADA-CONTINENTAL-MARATHON-HUNT AND OF OCCIDENTAL. FIRST FOUR COMAPNIES (WHICH ARE PRINCIPAL INDEPENDENTS OPERATING AS PARTNERS OF MAJORS IN LIBYA) MET AS GROUP. LARG AND COMPANIES EACH RESTATED THEIR POSITIONS AND JALLUD CONCLUDED MEETING BY REFUSING TO ACCEPT FORMAL SUBMISSION OF INDUSTRY'S MODEL OFFER

Department of State TELEGRAM

DECLASSIFIED

Pet 6 Libya

SECRET 834

PAGE 01 TRIPOLI 00473 02 OF 02 091251Z

43
ACTION E-04

INFO OCT-01 SS-20 NSCE-00 NSC-10 INR-07 CIAE-00 NSAE-00

L-02 AF-05 TRSY-06 EUR-12 ARA-11 NEA-08 PRS-01 OEP-01

SSO-00 EA-18 PM-03 COM-02 JUS-01 RSC-01 RSR-01 /114 W

002955

P R 091043Z MAR 71
FM AMEMBASSY TRIPOLI
TO SECSTATE WASHDC PRIORITY 7495
INFO USINT ALGIERS
AMEMBASSY BENGHAZI
AMEMBASSY BONN
AMEMBASSY BRUSSELS
USMISSION/EC/BRUSSELS
AMEMBASSY CARACAS
AMCONSUL DHAHRAN
AMEMBASSY DJAKARTA
AMEMBASSY JIDDA
AMEMBASSY KUWAIT
AMEMBASSY LAGOS
AMEMBASSY LONDON
AMEMBASSY LUXEMBOURG
AMEMBASSY MADRID
USMISSION NATO
USMISSION/OECD/PARIS
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY TEHRAN
AMEMBASSY THE HAGUE
AMEMBASSY TOKYO
AMEMBASSY VIENNA

S E C R E T SECTION 2 OF 2 TRIPOLI 473

LIMDIS

BY THESE FOUR COMPANIES. OXY HAD SUBMITTED INDUSTRY MODEL
PREVIOUS DAY AND WAS TREATED DIFFERENTLY.

SECRET
23

DECLASSIFIED

7. OXY WAS TOLD BY JALLUD THAT, IF IT WOULD NOT MEET LARG'S DEMANDS, THEN IT SHOULD NEGOTIATE FOR SALE OF ITS "POSITION" IN LIBYA TO LARG. TO NEGOTIATE SALE NOW WOULD BE MORE ADVANTAGEOUS TO OXY THAN IF LARG WAS FORCED TO TAKE OVER COMPANY AND THEN PAY COMPENSATION. OXY REP (WILLIAMSON) RESPONDED THAT COMPANY HOPED TO CONTINUE IN BUSINESS IN LIBYA, AND, THEREFORE, HE COULD NOT NEGOTIATE ITS WITHDRAWAL. AFTER FURTHER DISCUSSION JALLUD IMPOSED 72 HOUR DEADLINE (FROM ABOUT 1400 MAR. 8) BY WHICH OXY MUST CONCLUDE AGREEMENT OR FACE CONSEQUENCES. JALLUD DID NOT DEFINE CONSEQUENCES BUT TALKED OF CRUDE OIL EMBARGO BY MEDITERRANEAN SUPPLIERS - PLUS NIGERIA. HE ALSO AGAIN RAILED AGAINST "OIL CARTEL" AND THREATENED THAT OXY WOULD REGRET HAVING BEEN SEDUCED INTO JOINING WITH MAJORS.

8. COMMENT: JALLUD'S MENTION OF NIGERIA WAS FIRST SUGGESTION OF ITS INVOLVEMENT IN WHAT HAD BEEN MEDITERRANEAN GROUP, ALTHOUGH ITS STATUS AS SUPPLIER OF SHORT-HAUL, HIGH QUALITY CRUDE RELATES ITS INTERESTS TO THOSE OF NORTH AFRICAN PRODUCERS. JALLUD'S THREAT OF EMBARGO BY SHORT-HAUL SUPPLIERS IS SUPPORTED BY TRIPOLI COMMUNIQUE OF LATE FEBRUARY AND BY CURRENT PRESENCE IN TRIPOLI OF SUB-MINISTERIAL OIL DELEGATIONS FROM ALGERIA, IRAQ AND NIGERIA. SAUDI ARABIAN OIL OFFICIAL JOUKDAR, WE UNDERSTAND, IS ON CALL TO COME TO TRIPOLI FROM BEIRUT. DISPARITY, AS WELL AS COMMUNITY, OF INTEREST AMONG SHORT-HAUL SUPPLIERS IS EVIDENT, AND SOME KNOWLEDGEABLE SOURCES SUGGEST THAT COMPANIES' OFFER IS ABOVE MINIMUM DEMAND WHICH OTHER EXPORTERS (NOTABLY SAUDI ARABIA) AGREED TO SUPPORT.

9. WHATEVER THE POSITIONS OF OTHER EXPORTERS, WE THINK LARG'S SHORT-RUN OBJECTIVE IS TO CHARGE WHAT TRAFFIC WILL BEAR AT ANY GIVEN MOMENT. [redacted] B1

[redacted] HOWEVER, CONFLICT BETWEEN DESIRE AND RELITY HAS CREPT INTO STATEMENTS MADE BY JALLUD IN PAST FEW DAYS - FIRST IN TELLING [redacted] B1 [redacted] THAT HE WOULD MAKE OIL-RELATED VISIT TO ALGERIA AND JAPAN THIS WEEK, AND LATER IN ASSERTING TO BP THAT IF EUROPE WOULD NOT PAY WHAT LIBYAN OIL WAS WORTH, THEN OIL COULD BE SOLD IN US AND JAPAN FOR TRUE MARKET VALUE.

10 B. AT PRESENT, WE ARE UNABLE TO SUGGEST COURSE OF ACTION LARG IS MOST LIKELY TO TAKE. MEETING OF MEDITERRANEAN MINISTERS IN TRIPOLI THIS WEEK CONVENED BY LARG TO TAKE COLLECTIVE ACTION AGAINST COMPANIES IS GOOD POSSIBILITY. HOWEVER, WHETHER LARG CAN GET SUPPORT OF OTHER SHORT-HAUL SUPPLIERS OR NOT.

[redacted] B1

PALMER